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Remarks on the Release of Report, "The New American Economy-Building for the Long Term", Center for National Policy

Max S. Baucus

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Remarks of
Senator Max Baucus
Release of Report
The New American Economy: Building for the Long Term
Center for National Policy
December 7, 1992

When I look back across the last decade or so, I think of the story of The Devil and Daniel Webster. In that story, a man made a trade -- the good life now for hell to pay later.

This country has done some of that itself. These days, we're in the payment stage and feeling the heat. What worries me is there might be a reservoir of feeling in some political circles that there would be nothing wrong with making the same bargain all over again.

We absolutely cannot afford to do that.

For our previous mistakes, we've already paid a high price in what used to be American jobs. When you look at the annual interest payments on the national debt, you see we'll be paying that price for years to come.

While American government and the private sector circled each other in suspicion, foreign governments joined hands with their businesses in cooperation. And, again, we paid a high price -- a price in goods that used to be made her, but are now made somewhere else.

BORROW AND SPEND

The philosophy of the 1980s was: "Never mind tomorrow. Spend what you have, and if you need more, borrow."

For that, we paid a terrific price, and that kind of thinking has to stop. A new era of investment and focus on the long-term has to begin. The plan we unveil today is a dynamic package of choices meant to make us strong for the long-term.

Whether they will be popular is open to question. Whether they are necessary is beyond doubt. In a book released last year about Pericles, the leader of ancient Athens, I found this plain but powerful thought:

> "[B]ecause their opinions have a strong effect on the state's actions, the people in democracies need ... to understand and face reality."

It really is a simple truth. And it's one I believe was grasped by the people of this country long before it was understood by our leaders.

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People who have lost their jobs to foreign competition; people who cannot afford the cost of education or the price of a house; people who see a standard of living lower than they hoped for and a standard for their children lower than their own; those people -- as Pericles said -- understand reality and have known for some time that basic changes are in order.

So today, while there may be a debate over whether the economy still needs an extra push in the short term, there really is no question that we need to start building our country, our economy, and our people for the long term.

I am confident that President-elect Clinton understands that. And so do more and more of the people in the board rooms and in the conference rooms and in the living rooms of America.

This package of recommendations I am releasing today along with the Center for National Policy is entitled "*The New American Economy: Building for the Long-Term.*" It makes clear that the quick fix and the fast buck must give way to tough choices and long-term investment.

Because we took the easy road a decade ago, the choices before us now are harder than ever. While the need for investment and repairs is very high, so too is the federal budget deficit. How can we invest when we owe so much? Let me deal with that head on.

The ideas and recommendations we have assembled are not specifically designed to reduce the deficit. They are measures intended to restore our economy and our competitive position in the world. In fact, absent a serious commitment to restoring the vitality of the economy, we can't do more than reduce the deficit by more than just token amounts.

While the program proposed here is deficit neutral, it is also one that is complementary to, and indeed must be done in concert with, a serious deficit reduction program. Many others have suggested how to do that, including my colleagues Senators Nunn and Domenici, the Committee for Economic Development, Ross Perot, the Congressional Budget Office, and others.

My purpose is not to repeat their efforts. Rather, this plan is designed as a blueprint for the concrete actions we must take *beyond* deficit reduction in order to restore our competitive edge.

I have no doubt it is possible to contain the federal deficit while making policy changes to revitalize the economic power and competitive strength of this country.

Broadly speaking, we need to move in three areas: domestic investment; assisting emerging industries; and competing in international markets.

INVESTMENT IN PEOPLE

In the domestic area, we need to create an environment in which our people -- our greatest resource -- can flourish. We must start by equipping the American worker to compete in any market against any worker anywhere in the world.

After all, these are the men and women who won the Cold War. When we invest in them, we are investing in all of us.

Our most vigorous competitors and the best companies in the world have moved toward the "hi-performance" work force. It is a work force of highly-skilled people with the power to exercise judgement and make decisions right on the production line. It is a model that works and one that should be widely used in this country.

Beyond the broad model, I am proposing the establishment of voluntary, industry based, skill standards. By the turn of the century, 70 percent of the jobs in the United States will not require a college degree. By setting up a new system of certificates and degrees at both technical and professional levels, workers will have a portable recognition of their talents and an incentive to improve their skills.

Cooperation among business, labor and the education community will be crucial to the success of this effort.

We also need to create a new and better school-to-work transition system. Today, a student leaving school for the work force may literally bounce around for years in a series of unrewarding positions before settling into a job. That is a loss to the individual and a drag on our ability to compete with other countries. The Youth Apprenticeship Program which I have proposed will help move people from classroom to work place more effectively.

Employers of all sizes must be encouraged to make a bigger investment in their work force. This can be accomplished by requiring every employer to make a one percent investment in training or, alternatively, by providing a training investment tax credit.

Small and medium size businesses also need a network of technical assistance to help them with education, training and work place organization issues -- in much the same way the agricultural extension service has helped our farmers.

And our efforts must also include training dislocated workers for new jobs. We cannot allow people to languish and remain unproductive in this economy. But that's what's happening now, particularly when American workers lose their jobs as a result of trade agreements. Genuine re-training must replace the often haphazard and misdirected programs currently in place.

So we have five recommendations for the American work force. Five ways of restructuring our system to make us more effective and more productive for the long-term. We need to move on each of them within the year. Excuses cost time and they cost money. If any evidence is needed, look at the infrastructure of this country.

INFRASTRUCTURE INVESTMENT

We have been looking at it a long time, watching it crumble, along with our resolve to fix it. That has to change. Measured on a per capita basis, American investment in public infrastructure has declined from $408 per person in 1968 to $375 per person in 1991.

We have a lot to do, beginning with adoption of a capital budget. Our current federal budget system does not separate current operating receipts and expenditures from its long-term investment for capital projects. As a result, we treat daily operating expenses the same as growth producing investments.

Beyond a capital budget, we need a national infrastructure financing strategy. In cooperation with state and local governments we need to work toward the same goal, not at cross purposes.

And we need to make the capital more available for such projects, with a National Infrastructure Bank, and selective changes in the tax code, and better imposition of user fees.

TECHNOLOGY

We must also renew or efforts to develop and apply new technologies, including a far greater emphasis on practical projects, with daily-life payoffs, such as environmental protection measures.

Within the first six months of the Inauguration, the President's Science Advisor and the Secretary of Commerce should create a framework for establishing new research and development goals.

These should include greater investment in commercial technologies, such as the Commerce Department's Advanced Technology Program, which should be spending $500 million per year within five years.

And we must not miss the chance to promote further research investment in the private sector, both directly and through collaborative efforts with federal and state agencies. Special emphasis must be given to joint government-private sector research initiatives with both sides putting up money and personnel. The model of government-private sector cooperation provided by SEMATECH should be duplicated for other technologies.

Times have changed. What was once indispensable research for national defense can now be refocused to promote American advances in the world marketplace. Given the reduced tensions in the world among nuclear powers, defense spending for research and development should be reduced five percent annually for each of the next five years. And the resources used to further the Cold War, especially weapons research, can be channeled into more productive public and private activities.

EMERGING INDUSTRIES

As technology has revolutionized our lives and will continue to remodel them many times over, the success of key industries, such as computers and semiconductors, becomes more critical to the success of our whole economy. They are the engine of future job growth.

It is likely that within a decade, we will be dealing with a vast commercial industry only now beginning to emerge. What is that industry?

That's a question we must be in far better position to answer than we are now. We have never been out-thought in the computer and micro-chip business. But we have been out-sold because we didn't move quickly enough to convert our inventions into commercial success.

To help direct our efforts, I am proposing that Congress and the President establish a temporary commission on industries of the future. It's basic mission would be to develop a baseline assessment of the American economy, assessing industries' contributions to employment, income, and their effect on other industries. In addition, the Commission would be charged with the task of identifying key emerging industries and making recommendations to Congress on any steps needed to facilitate their development.

While it may sound like just another study, in fact, if we'd done this a decade ago, we might have avoided many of the economic problems we face today.

INVESTMENT IN CAPITAL

Of course, the development of new training programs, renewed efforts in technology and investment in emerging industries takes capital. We need a lot of it, and it doesn't come cheap. One reason is that our savings rate, about two percent of GDP, is so anemic.

As a consequence, we rely much too heavily on debt financing. And that has made our investment rate, about seven percent of GDP, lower than most of our major competitors. Without greater investment, tomorrow's employment picture will increasingly be filled with lower skill, lower pay jobs.

To help lower the high cost of capital and boost investment, we need to restore the Investment Tax Credit. The Joint Tax Committee has concluded that restoring and targeting the credit so that it applied only to increased investment would "lower the cost of capital without providing the windfall to existing capital that reductions in the corporate rate would."

We also need to install a targeted capital gains exclusion for new investments. The exclusion would rise as the holding period lengthens so that we would encourage patient capital and long-term investment.

In the United States, income is taxed once when received by a corporation and again when its earnings are distributed to shareholders. That means income on equity is taxed twice. Income on debt is taxed only once.

If we were to eliminate this bias against equity financing, by instituting so-called corporate integration, we could produce as much as a $25 billion gain annually to the economy.

While ordinary workers benefit from greater corporate investment, the wealthy receive a disproportionate direct gain from these tax incentives. To offset this inequity, and to reduce the revenue losses from these proposals, taxpayers earning more than $150,000 per year would shoulder a greater tax burden.

But more needs to be done in the long run, both to control the deficit and to further encourage savings rather than consumption. Thus, I am recommending implementation of a value added tax, or other consumption tax.

It is not easy to talk about raiding taxes. It has been even easier to not talk about borrowing. Yet we borrow everywhere -- from overseas, from each other, and from perhaps the source of funds where the cost will be highest, from our children.

We have deferred some of our most important choices about the long-term strength of this country by borrowing rather than paying cash. Over the years, a hard callous of partisanship and finger-pointing on taxes has helped create a credit card mentality, never mind the 20 percent interest.

The choices we must make won't be easy. But the consequences of not making them now will be infinitely worse.

It is true that the United States slipped a few positions on the economic scale in a number of industries in the last 10 years. In some others, we were knocked down.

But in no case can we be counted out. We still carry enormous economic firepower in international trade. But what we do with that power, how we enhance it, will determine if we remain contenders in every division, or become also-rans.

We have a big job ahead of us in restoring our ability to compete in world markets.

THE GLOBAL MARKETPLACE

Trade policy cannot by itself address the full range of problems that have kept us from competing at full power. We need American manufacturers that have competitive products to sell. Yet it does little good for our producers to manufacture competitive products if they are shut out of foreign markets by foreign trade barriers.

For that reason, the focus of American trade policy should be on opening foreign markets for American products. To that end, the United States should continue to pursue bilateral and multilateral trade agreements to open foreign markets. While serious attention must be paid to concerns such as environmental protection and worker adjustment, trade liberalization is in the best interest of the United States.

Congress, therefore, should again enact fast track trade negotiating authority, which effectively expires on March 1. An additional grant is almost certain to be necessary to complete the troubled GATT round, renegotiate the NAFTA, or negotiate future free trade agreements.

Negotiating agreements, however, is not enough. Too often, we have spent great amounts of time creating agreements and far too little time seeing that they are enforced. We need to toughen our trade laws.

We should extend the Super 301 provision of the 1988 Trade Act, which requires us to focus efforts on the most serious trade barriers American exporters face. Super 301 expired in 1990 and should be extended.

We should also pass the Trade Agreements Compliance Act, a measure based on the basic premise that a deal is a deal. It requires our trade negotiators to ensure that our trading partners live up to the agreements they make with us.

Beyond these measures, we must expand our export promotion efforts. And we must create an Economic Security Council to make it clear that we take economic security as seriously as military security.

CONCLUSION

These recommendations and others included in our report may appear extremely ambitious. They are. And they are because in many areas, we have been extremely slow to act in our own best interests.

None of these proposals will produce an instant turn around. They take time and patience. But ignoring them will allow the continuing erosion of our economic power and ability to compete. We must act. We must act in the understanding that we will have to make choices we may not like in order to achieve goals all of us want.

For too many years, we have been content to settle for short-term gratification. We didn't think ahead. We didn't look ahead. In the process, we fell behind, fell into debt with the devil to pay.

No more of that. We need to invest, to bend our efforts to the long-term and the bedrock economic strength of this country so that anyone who wants to compete with us will know again they've got a real challenge on their hands. It is my hope that this report will contribute in some way to reaching that goal.